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C O N F I D E N T I A L SECTION 01 OF 02 SANAA 002250

SIPDIS

STATE PASS TO USTR - BUNTIN

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SUBJECT: YEMEN: WTO ACCESSION UPDATE

Classified By: CDA A.G. Misenheimer for reasons 1.5 (b) and (d).

1. (u) Summary: Minister of Industry and Trade Khaled Rajeh Sheikh will lead the Yemeni delegation to the WTO ministerial in Cancun. Yemen is moving steadily forward on WTO accession and expects to accede in 3-5 years. The European Commission (EC) is launching a five-year, seven million Euro project to provide technical assistance to Yemen's accession. While the ROYG is pushing accession, the business community is voicing strong concerns over Yemen's preparedness. End summary.

Hoping for the Best Deal in Cancun

2. (u) Minister of Industry and Trade Khaled Rajeh Sheikh and Advisor to the Minister and Chief of WTO Coordination and Communication Nagib Hamim will travel to Cancun for the WTO Ministerial, September 10-14. Hamim told Pol/Econ Chief and Pol/Econoff on August 25 that the ROYG was examining the accession process of Nepal and Cambodia, in order to obtain a more favorable accession agreement for Yemen. Hamim said that the ROYG is also monitoring the outcome of the discussion on agricultural subsidies. Commenting that Yemen is a net food importer, Hamim said he supports a gradual reduction in agricultural subsidies.

WTO Accession Still 3-5 Years Out

3. (u) Deputy Minister Iqbal Bahder told participants at the June 23-25 Ministry of Industry and Trade sponsored National Integrated Framework (IF) Workshop that he expects Yemen's WTO accession to take 3-5 years. The purpose of the workshop was to review the results of the Diagnostic Trade and Integration Studies on Yemen completed in 2002. Government and non-government representatives determined an action plan to enhance and strengthen the ROYG economy. Several academics and Islah-oriented businessmen criticized the IF study for neglecting the ROYG role in job creation. The completed action plan focuses on infrastructure development, building roads, job-training, and improving the quality of exports.

4. (u) The Dutch, who are the ROYG's partner in the IF process, circulated the action plan to the donor community and will hold meetings throughout the Fall to coordinate assistance plans. At the same time, ROYG officials will combine the results of the IF study with the World Bank's Poverty Reduction Strategy into a single reform strategy.

5. (u) According to Hamim, Yemen is finalizing its answers to the 167 questions submitted from the U.S., EC and Australia on Yemen's Memorandum of Foreign Trade Regime. Hamim expects the questions to be answered by the end of the year, which will enable Yemen to have its working party meeting early in 2004. On a recent visit to Geneva, Hamim obtained approval for two outreach seminars funded by Geneva to discuss WTO accession with academics and parliamentarians, which will be held this fall.

EC to Fund Five Year Accession Assistance Program

6. (c) Head of the Yemen office of the European Commission Reiner Schierhorst (protect) described to Pol/Econ Chief and Pol/Econoff the EC's five-year 7 million Euro program to assist Yemen in its accession process on August 27. The EC will fund a WTO advisor at the Ministry of Industry and Trade to oversee its program, which includes assistance for accession, institutional strengthening and public awareness. Comment: Schierhorst said that, in a unique arrangement for the EC, the chief will be ROYG WTO Advisor Nagib Hamim. Hamim did not mention this to Embassy officials, and post requests that this information remain close-hold until publicly announced. End comment.

7. (c) Officials from the EC are in Sanaa the week of September 6-10 to initiate the program. Schierhorst said that the one area that he felt the program did not cover was small and medium size enterprise development. He supports such an initiative, but a team from Brussels visited Yemen

and concluded that Yemen lacked the business environment to enable the program to operate.

Business Community: ROYG Not Prepared

18. (c) Pol/Econoff raised WTO accession with several businessmen affiliated with both major political parties (GPC and Islah) and the Sanaa Chamber of Commerce. Most believe that the ROYG does not have the economic infrastructure to support accession. National Trading Company (NATCO) Manager Nabil Hayel Saeed (protect) conceded that WTO accession is inevitable, but told Pol/Econoff that the ROYG does not have the customs, border and tax authorities to support WTO membership. According to Saeed, NATCO, which operates the Hewlett-Packard license for Yemen, faces stiff competition from smuggled computers. Saeed stated that 80 percent of printers and 50 percent of computers were smuggled into Yemen, and expressed fear that his business will suffer with further reduction in trade barriers.

19. (c) Ahmed Bazara (protect), the Toyota distributor and member of the Sanaa Chamber of Commerce, explained that because Yemen has poor quality control mechanisms and lacks industrial products to trade on a world market, accession would likely have negative consequences for the Yemeni economy. Echoing Saeed's comments, Bazara said that Yemen is just not ready to compete on the world market.

Comment: Marketing WTO Accession to Public

110. (c) Comment: The ROYG is moving steadily forward on WTO accession, with or without public support. New initiatives funded by Geneva to reach out to academics and parliamentarians may help, but the businessmen Post has spoken to are looking for concrete improvements in government services. The ROYG has a tough road ahead in securing public acceptance of WTO accession if even the businessmen who trade in western goods and services do not support accession. End comment.
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